

The Canadian Chartered Accountant

OFFICIAL ORGAN OF
THE DOMINION ASSOCIATION OF CHARTERED ACCOUNTANTS

Published monthly; subscription \$3.00 per annum in advance;
single copies thirty-five cents. Advertising rates sent on request.

Articles submitted for publication will be read as promptly as
possible, and either retained for use or else returned to the author.

Opinions expressed in articles in The Canadian Chartered Ac-
countant are not necessarily endorsed by the Association.

Authorized as second class mail, Post Office Department, Ottawa.

Publication Office
10 Adelaide Street East, Toronto
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VOL. L

APRIL 1947

ISSUE NO. 4

Editorial Comment

Income Tax Rulings We are pleased to announce that the Minister of National Revenue has advised us that departmental memoranda on matters of ministerial discretion are now to be made public at the time they are issued to Inspectors of Income Tax. This advice comes with the caution that the wording of these instructions has not the force of law nor is it the intention that they be regarded as a codification of the law. They are but guides which Inspectors are expected to follow and the facts of the particular case, when properly weighed, will be the deciding factors.

The Executive Committee of The Dominion Association of Chartered Accountants has decided that complete copies of these memoranda are to be forwarded to members as soon as possible after receipt by the Secretary. It is not intended that all should be published in THE CANADIAN CHARTERED ACCOUNTANT although we shall make reference to them and publish those, or parts of those, which we feel warrant such treatment.

That the Minister should have come to this decision after so many years of urging by our Association and other groups gives us a distinct feeling of encouragement. It

suggests a broad-mindedness on the part of responsible officials of the Department which augurs well for the future. Of particular hope is the following sentence which we have lifted completely from its context as part of a memorandum dated 24th February 1947 on Salaries. We do not think we do any violence to it by so separating this sentence — "We should be able to do this quite well through careful investigation of fact and the exercise of reason and judgment, rather than by any formula or rule of thumb". May we compliment the Deputy Minister by saying that this is the kind of simple language we can understand and appreciate; and may we all devoutly hope that the word "ruling" may never again be thrust at us before all the facts of the particular case have been ascertained and reviewed.

Bulletin No. 2 Prospectives The Committee on Accounting and Auditing Research has issued its Bulletin No. 2 on Prospectuses which is published herein. The tentative statement on this subject appeared in our issue of November 1946. A comparative reading of the tentative statement and this final document will give to those interested some idea of the intensive thought and energy which is put into the consideration of such a subject. The comments received by the Committee following the issue of the tentative statement were, in the main, most helpful. A change in future procedure is that tentative statements will not be made public, but will be mailed to members of The Dominion Association of Chartered Accountants for their criticism and comment.

Members will be interested to learn that the Ontario Securities Commission in a directive entitled "Notes re Financial Statements Required Under Section 49 of The Securities Act, 1945" has set out the information which it will require in addition to minimum requirements forming a part of the Act itself, and has set out, as well, the procedures which it will assume have been followed by auditors in their review of financial statements included in prospectuses submitted for approval. The terms of Bulletin No. 1 and the tentative statement of Bulletin No. 2 have been adopted almost *in toto* and, in one case where the Committee states that certain disclosure "is desirable", the Commission has gone further and made that disclosure mandatory.

EDITORIALS

This has to do with the statement of earnings to be shown where a bond or debenture issue is proposed.

The interest taken by this government agency in these pronouncements is distinctly complimentary to the Association.

Tax Forum There has been received from a number of different sources the suggestion that we set up a tax forum or clinic as a regular or semi-regular department of the Magazine. Those making the suggestion have not indicated the form it should take or the manner in which it might be operated to accomplish a useful purpose. We have an open mind on the subject but rather lean to the view that so much is left to the "discretion of the Minister" that it would be difficult for any one acting as an advisor to give adequate answers to questions received. Further consideration will be given to this suggestion, however, if those interested in such a venture would give us their ideas of a satisfactory procedure and at the same time start the ball rolling by asking questions or giving particulars of interesting decisions made. We believe that whatever is done publicly should be on an anonymous basis, but we would, of course, require the writer to give his name and address for the purpose of record and as a guarantee of good faith.

Book Reviews We are endeavouring to enlarge our book review section and are asking publishers to send us review copies of new books published. By this means it is hoped that we may render a real service to readers and to various library committees and the advantage to the publishers themselves may be of some account. The circulation of the Magazine has now reached a total of 6,810 copies monthly, of which 5,279 are members and registered students. The balance of the subscribers are persons from many other walks of life. It is hoped that readers will tell us of new books, which they run across, on accounting, auditing and allied subjects, particularly those which may have been published abroad; if they will at the same time send us their own "review" of the book, so much the better. Where books are received from publishers at our Publication Office, they will, where possible, be assigned

to members for review. The award to those thus reviewing new books, (and we exclude the editor and the staff of the Association), will be a copy of the book provided that the review passes the scrutiny of the Editorial Committee and is accepted for publication with or without amendment and provided that the review is received at the Publication Office within 21 days of the book's delivery to the reviewer. Have we any volunteers?

*Listings
on Stock
Exchanges* Not long ago, we asked officers of a large Canadian public company whether or not it was worth the candle to list the company's shares with the New York Stock Exchange. These officers had been going through a rather difficult time and, when the question was asked, they had successfully negotiated all the hurdles of the Securities and Exchange Commission but appeared to be in a temporary difficulty with the New York Stock Exchange itself. There was a rather eloquent silence after the question was put and no answer was received. We wish someone would write an article on this subject dealing with listings abroad as well as listings in Canada. Is it the experience that a shareholder is a customer? Is it a fact that a listing abroad will stimulate an export market or encourage an inflow of capital investment? What benefit is derived from the listing with the New York Stock Exchange of shares of Canadian mining companies, either gold or base metals? Why is it that bonds are traded in Canada on an unlisted rather than a listed basis, while shares in the same companies are listed? What real defence is there against a shareholder who says that he sees no reason why his money should be spent to meet the expenses of a foreign listing? Many of us know half answers to these few questions; all of us would be interested in a full-dress review of the subject. Here is a challenge to those of our members who make their livelihood in the securities field or who, as corporate officers, have been through the mill of a listing. The challenge is not restricted to members, however, nor to single writers—a joint venture would be welcomed.

International Trade and Economic Problems

By L. B. Pearson

Under-Secretary of State for Foreign Affairs

I MUST be careful what I say, especially if I touch on the subject which was suggested for my Minister, "International Trade and Economic Problems". As a Canadian diplomat in the United States, I had a certain amount of oratorical freedom, but now that I have exchanged the Ambassadorial limousine for the street car, and have become an official again, I am supposed to be both anonymous and silent—except, of course, when I am ordered by my Minister to make a speech in his place! All this is preparatory to saying that any view I might happen, accidentally, to express tonight is entirely my own and is given, as they say, in my personal, not my official capacity.

Having, therefore, safeguarded myself against all danger, I would like to add that in my opinion it is a good thing for officials—bureaucrats if you like—to leave their ivory towers now and then and talk to business men. Whether it is profitable or pleasurable for the business men is another question. There are those who think that all business men should be officials, in a Socialist régime. There are others who think that 90% of all officials should become businessmen; go to work and learn how to read balance sheets and make millions; that the other 10% might be permitted to work for a government whose main function would be to keep the peace and help business. Neither extreme makes very much sense. Extremes never do.

I suppose most reasonable people could agree on a middle course. There should be only that amount of government which is necessary to promote the well-being and preserve the freedom and security of the people. That is, of course, such an easy generalization that it has become a platitude. My experience has taught me, however, that there is nothing so difficult as the conversion of a platitude into a performance.

We can also, I think, agree that business and govern-

An address given at the mid-winter banquet of the Institute of Chartered Accountants of Ontario at Toronto on 5th March 1947.

ment should represent a partnership and that there is no necessary antagonism between them. They should work together. Certainly in the never-ending contest against the forces of reaction and depression and distress they are both on the same side, so they should, of course, be working toward the same goal-line and playing under the same agreed code of rules. It is worse than useless to have a team divided against itself, so that every time they get the ball, there are two separate huddles with two quarter-backs giving contrary instructions. Such a procedure may confuse the opposition but not nearly as much as it confounds your own team.

We certainly can also agree, I think, without any reservations, on one thing; that the amount of government which is required should be conducted on a business-like basis; the word "business" being synonymous, of course, with "efficiency".

Bureaucracy is supposed, on the other hand, to be synonymous with stuffy inefficiency (something which I am not likely to admit) and the bureaucrat is supposed to be a person who spends three or four hours each day winding red-tape around official documents, the contents of which are designed to bemuddle and bewilder the straightforward straight-talking business man.

Well, as one who has been concerned over the years with the hamstringing effect of red tape, I can certainly sympathize with that feeling. But I have also learned that, at times, there is one thing even more delaying and destructive than red tape; that is misguided and premature efforts to cut across wise and well established procedures. You can, I suppose, get more toothpaste more quickly by squeezing the *top* of the tube; but it is not a procedure that I would recommend. The result is messy and wasteful. On the other hand, you can go too far to the other extreme, in observing all the fussy niceties and formalities of official rules and procedures. I hope, for instance, that my own Department will never become strangled with its own regulations.

The particular bureau in the service of the Government, of which I am at the moment the top bureaucrat, is the Department of External Affairs. That Department is divided into two parts, the members of which are inter-

changeable—the home Department in Ottawa and the posts abroad, the diplomatic service proper.

Among the uninitiated, and that includes practically everybody, there is a very false conception of diplomacy and diplomats. I laboured under this misconception myself for many years. We are still supposed to be the "spats and striped-pants boys", whose main job is balancing tea cups. This is a fixed impression, I know, in the United States. It was effectively challenged by the recently resigned Secretary of State, Mr. Byrnes, in an appearance not long ago before a Congressional Committee in Washington. Mr. Byrnes, in reply to some sneers by the Congressmen at the virility of the diplomats in his State Department, replied that he had been in charge of that Department for over a year, had never seen a spat, and that the only pair of striped pants he had noticed had been worn by a politician who had been trying to get a job as Ambassador.

Canada's Department of External Affairs and the Diplomatic Service which it administers is a young creation of vigorous, but, I hope, healthy growth. When I joined the Department in 1928, it had 3 missions abroad; London, Washington and Paris. It now has missions in 26 countries and we are committed to the opening of 4 more. In 1928 our total staff at home and abroad was 145; in 1947 it is about 800. The diplomatic staff numbered 20 in 1928. It is now 126, and they are, I assure you, a hard working lot. I think it is true to say that no foreign office in the world tries to do as much work, at home and abroad, with as small a staff as ours.

Some of our critics say that we are mostly professors and Rhodes Scholars; too far removed from the hard realities of the practical world. That we are men who have never had to meet a payroll! I am willing to admit that we have a goodly proportion of former academicians in our midst, but that proportion is decreasing each year as we build up our Service through recruitment by competitive examination, and promotion from junior to senior ranks of those so recruited. I can assure you that the ex-service men we are now recruiting are practical enough to satisfy any factory foreman. I do not, however, admit that we have ever been remote from the business aspect of Cana-

dian life. If we were, we would certainly be of little value to our Government and to our country.

The future growth and development of the Canadian Diplomatic Service, is, of course, a matter for Government decision. Our expansion, up to the present, has been dictated by our growth as a nation in the world, and has merely tried to keep pace with that growth. I, for one, have no illusion that Embassies and Legations abroad establish our international position, or indeed add to it. They are merely a reflection of that position. If our standing in the world is now high—and I think it is—that is due, first, to the men who built our nation and our national reputation on battlefields far away, and secondly, to the working men and women at home. They, and not officials, either diplomatic or otherwise, are the ones who have established Canada's status among the nations. To carry out the responsibilities of that status, we should, in my view, be represented abroad in all countries where our interests necessitate such representation. Diplomatic offices never should be a luxury established for considerations of prestige. They must justify themselves by the contribution they make to Canada's interests. On this basis, we should, I think, be represented worthily, but not extravagantly; with dignity, but without display.

Posts in the Canadian Service, either at home or abroad, are now open to every young Canadian who can qualify by competitive examination to fill them with a priority—as is proper—given to veterans. Furthermore, it is possible for a successful candidate without any advantages of wealth or position, to rise from Secretary to Ambassador in the Canadian Service. That it is possible, is shown by the fact that we already have several career Ambassadors who have done it.

Is this External Affairs Service needed at all? The answer to that is easy and obvious. We are now, so we boast, especially in after-dinner speeches, a nation, a strong nation, a proud nation. As such we must, in self-respect, look after our own external relations.

We are also a nation that has been taught by two wars and one depression that what goes on in other countries has a real, and often a tragic meaning for us, politically and economically. The real argument against isolation is

not that it is immoral, but that it is impossible. No country has more reason to know this than our own. This is, of course, as true of economic as of political affairs.

Developments on the international economic front are of fundamental importance in formulating Canada's foreign policy. The two main official agencies for keeping track of these developments are the Departments of Trade and Commerce and External Affairs.

There is the closest possible co-operation between these two Departments, both at home and abroad. I can assure you that if there was ever any false and antiquated distinction between the diplomat and the trade commissioner, that has been removed. There is a differentiation in recruiting, training, and work, which is desirable. We are not a single service, but we co-operate as such.

At home, this co-operation is maintained by a joint committee of the two Departments, meeting regularly to discuss common problems; abroad, it is maintained by giving trade commissioners in foreign capitals where we have missions, diplomatic status as members of those missions. In certain other cities, they have been appointed consuls so that they are responsible to External Affairs for their consular work, and to Trade and Commerce for their other duties. I hope that soon Trade Commissioners will be called on to fill top diplomatic posts. This close co-operation makes for efficiency and economy and is good for both services.

The External Affairs Service, however, is one thing; the External situation quite another. I would like to say a few words on that situation, especially on its economic and trade aspects. It is one to give Canadians "furiously to think". No country depends more on external trade than we do; none have more of their national eggs in that particular basket. Canada's prosperity, in fact, depends to a dangerously large extent on others; almost as much on high employment in the United States and high production in the United Kingdom as it does on the energy and wisdom of the Canadian people and their governments. Our efforts during the past few years in the field of international economic relations have been a recognition of that fact.

These efforts have been based on enlightened self interest, and directed to assist in restoring the economies of

foreign countries, particularly those which were seriously damaged or disrupted by the war, to health and vigor. For unless that is done we in Canada will not be able to do business with them on a mutually profitable basis. Take away any large part of our foreign business and we will be faced with unemployment, loss of income, and problems of economic adjustment involving the transfer of people from one occupation to another and from one locality to another which will be painful in the extreme and which will leave no class in the community unaffected.

In the field of economics, as in that of politics, Canada's external interests bulk large without being concentrated on one single country. It is commonplace that out of every ten people employed in this country, three or four are in jobs directly associated with external trade.

Next to its volume, the most important feature of our foreign trade is that it is not neatly balanced with our various trading partners. Normally we export *much* more to the United Kingdom and more also to Continental Europe than we import. Normally we import much more from the United States than we export. Recently this lack of bilateral balance in our trade has, of course, been accentuated. On the export side we have sought to help in the reconstruction effort of Britain and Western Europe by increasing our allocations to them of supplies out of our production, while our imports have been to a greater extent than normally obtained in the United States. Further, we have been selling on credit to the United Kingdom and buying, in cash, from the United States.

There are, no doubt, some other countries for which foreign trade plays as important a part, relatively, in their economic life as it does in ours. And there are, no doubt countries whose whole foreign trade is as concentrated with one single country as our imports are with the United States or our exports with the United Kingdom. But there is certainly no other country which combines both our degree of dependence on foreign trade and our problem of concentration of exports and imports in *different* countries, raising as it does the problem of triangular settlements.

Let us not be misled as to the difficulties, and even the dangers ahead, because we have made the conversion from war to peace with smoothness and success; because we have

disproved pessimistic predictions of great transitional unemployment; because everybody is working and cheerfully (?) paying their income tax; because you cannot get tickets for a hockey game or a symphony; and because our trade figures are breaking records.

A couple of years from now—unless we are careful and lucky and wise—we may be looking back on 1947 with nostalgic envy. There are storm clouds—not overhead—but over the horizon, and the forces that are driving them on do not originate in Canada. Nor can they be controlled, though they may be influenced, by Canada.

In the light of our particular position, it is interesting, and not too encouraging to glance at the situation as it has developed over the last two years or so, and speculate—for that is all we can do—about the “shape of things to come”.

In 1945-46 an imposing framework of institutions was erected in an effort to achieve co-operative solutions of international economic problems. The most comprehensive was the Economic and Social Council of the United Nations with long range rather than short range significance. A number of specialized international institutions have also been created to establish a pattern of conduct for economic relations among nations in particular fields and thereby to avoid a recurrence of the mutually destructive policies which have sometimes been followed in the past. The International Monetary Fund, for example, sets out rules for the conduct of monetary relations between nations. Members of the Fund agree to avoid competitive exchange depreciation. They also agree, after a transitional period, not to place any restrictions in the way of foreign countries' spending in any part of the world the money they earn through exports. Similarly, the draft charter for an International Trade Organization which was discussed last Autumn in London by the representatives of a score of nations and which will be discussed again in Geneva next month, seeks to obtain agreement on the rules to govern trade relations among nations. It sets out provisions against discriminatory trade practices, quantitative trade restrictions and in general is aimed at a liberalizing of trade policies.

The codes of behaviour embodied in the charters of the

various international agencies are, of course, intended to apply in a normal world. They presuppose that the transitional period of recovery from the economic devastation of war has been successfully passed. Until this transitional period is successfully passed and the economies of the various countries firmly re-established, it is clear that the normal rules which should govern the economic relations among nations cannot be applied.

Efforts have been made on both an international and a national basis to deal with these transitional problems. If, eighteen months after the end of war in Europe, reconstruction is still far from complete, this should occasion no great surprise. It is natural for us to under-estimate the degree to which the economic life of Europe was disorganized and distorted by the war and the extent of the effort needed to set things right. The immediate problem was relief. This was dealt with on an international basis by UNRRA, which was designed to meet the requirements of essential food and clothing of the war-devastated countries which were not in a position to pay for their needs. UNRRA'S activities will come to an end within the next month or so, but the task of relief has by no means been completed.

After relief comes reconstruction. By their own efforts and with foreign assistance, most of the Allied countries most seriously damaged by the war have succeeded in restoring a considerable part of their productive efficiency and output but much remains to be accomplished. Unfortunately, organizational difficulties have prevented the International Bank for Reconstruction and Development—the inter-governmental agency through which assistance in reconstruction was to be forthcoming—from making any material contribution to the reconstruction problem up to the present. It is greatly to be hoped that the welcome appointment last week of Mr. J. J. McCloy, former Assistant Secretary of War of the United States, as President of the Bank will act as a stimulus to its lending activities, for it should play an indispensable part in the machinery of reconstruction.

Canada has played an active part in the establishment of all these international institutions, and not least the financial ones. In addition we have, as you are aware,

extended large credits to our main foreign customers whose economic situation was upset by the war, to help them purchase goods needed in Canada which they were unable to pay for out of their current production. Total credits of \$1,845 million were authorized, of which nearly half were spent by the beginning of this year. These credits were not only intended to relieve the appalling shortages of food and essential supplies in Allied countries—they were also intended to help our traditional cash customers to get on their feet again so that they could continue to trade with us on a mutually profitable basis. Along with our participation in the international approaches to economic problems to which I have alluded, they form part of a programme aimed at re-establishing a re-vitalized world trading system on which our employment and standard of living in Canada depend.

There are, of course, risks involved in the extensive effort which Canada has made to help re-create a functioning world economic system. But would the risks of an alternative course have been less? Is not our stake in world recovery so great that we were virtually obliged, in our own self-interest to back the reconstruction of the British and Western European economies to the limit of our resources? Let no one think that the inter-dependence of national economic systems is a mere theory which has been thought up in a university classroom or in an office in Ottawa.

Partly as a result of these "mutual aid" policies of the United States and Canada, things were beginning to look up by the Autumn of 1946. However, this hope of a better future to be realized before long, rests mainly on two things:

(1) In the political field, a satisfactory peace settlement and a growth of security and confidence between the great powers.

It is not my intention to talk about this tonight, but the progress made has not been as great as we might have hoped. The next six months during which the German settlement is to be tackled—will show whether there is any greater hope for the future.

(2) In the international economic field, our hopes rest on the implementation of the liberal, multilateral trading principles that have been laid down, and, as a

part of this process, the restoration of the economic and trading strength of the United Kingdom before the "pump-priming" process of the United States and Canadian loans is finished.

This vital economic issue—as vital for Canada as any country—may well be decided in 1947, and there is no certainty that the decision will be favourable.

How can the high-minded and far-seeing economic principles of Bretton Woods and the I.T.O. discussions be applied if some of the leading trading nations of the world find that they are unable to make both ends meet in their foreign transactions because they have been unable to get their economies restored within the breathing-space provided by the credits which were made available. As matters stand, it is not certain that countries will not be forced into policies of economic defence because they are not able successfully to complete their reconstruction and recovery from the worst effects of the war with the resources they have at hand. If they are forced into such defensive measures, then we may well witness, though on a much larger scale, a recurrence of the worst features of international economic policy of the 1930's—restrictionism, bilateralism, discrimination, excessive protection.

Countries, seeking a hedge against possible failure of better plans, are already beginning to make bilateral arrangements. There has been some criticism of these. A witty commentary on this criticism that such arrangements had received was made not long ago in Montreal by the Swedish Minister to Canada when he said:

"There has been so much talk recently of multi-lateral trade versus the somewhat suspect character of bilateral agreements that it seems to be rather difficult to get to the substance of it.

"Recent experts on commercial policy have almost built it up to a question of good or evil. You are led to believe that a bilateral agreement is to be classified with some of the popular names of outstanding perfumes, such as 'Danger' or 'Shocking' or 'Scandal'. Some commentators have gone so far as to indicate that a bilateral agreement would rightly deserve the name of a widely advertised brand in the United States, called 'My Sin'. On the other hand,

multi-lateral agreements are classified along with more dignified names such as 'But Yes' and 'Suivez-moi'."

"Suivez-moi", but where? The answer to that will depend to a large extent on the leadership given by our great friend and powerful neighbour, the United States.

Alone among the countries of the world the United States is in a position of impregnable international liquidity. That country is consequently free to base its international economic policies on long-run considerations of its own self-interest without running the risk of being forced into restrictive international policies through the pressure of short-run financial necessity.

One test of this leadership, and a test of the wisdom and far-sighted imagination of other countries as well, will be found at the forthcoming Geneva conference. The failure to meet this test would have a far-reaching effect on the restoration of world trade, and on Canada's future economic policies.

Equally important and far-reaching, is the "Battle of Britain", now being waged, no less heroically, and for stakes not much less than in the legendary struggle of 1940. As the dangers and difficulties of the British position become apparent the western democratic world is beginning to realize almost with a shock, again as in 1940, what the loss of this battle would mean to the welfare of us all; what a great stake we have in Britain's survival as a great economic power.

The British post-war effort has been as courageous and proud a display of national discipline and doggedness as any ever made by any country—and it was made after seven years of war-suffering and war-privation. The British people, triumphant but very tired, were given after the war no fruits of victory. They were given the order, not merely to tighten their belts, that is not so difficult, but to keep belts tight which had been taut for seven weary years. They were told to export to others the things that they were longing to possess. There is, I suggest, no other nation in the world that could have risen to this challenge in the way the British have done. But the weary Titan groans beneath the burden of Empire abroad, of reconstruction at home, and of European restoration. Then came the cruel and surely uncalled-for trials of this black winter;

too much cold and not enough coal; increasing needs and decreasing resources.

Do not let anyone count the British out. They have been counted out many times before and have always risen to grin and win.

It would, however, be equally foolish for Canada not to consider very seriously, the lesson for her of Britain's present and persisting difficulties. The British once their loans run out, simply cannot go on receiving more goods from us than they send us, unless the Conference of Geneva succeeds and they can get back to pre-war multilateral trading. If this does not happen the only other course for them is to increase their exports to Canada or decrease their imports *from* Canada; to bring them into balance. Either course would have important implications for Canada's trade both with the United States and the United Kingdom for it would drastically modify the historic triangular pattern of that trade. If the British were forced into bilateralism, that would force us into a reconsideration of our whole traditional trading policy.

These are somewhat gloomy speculations, and, as I have said earlier, they are only speculations. But it is well to contemplate contingencies which may not arise, so that we can meet them if they *do* arise. Contemplation of the possible developments I have been outlining, is not made more cheerful by the realization that these developments are, to a great extent out of our hands.

It sounds trite—maybe you will change the “t” to a “p”—to say that fateful decisions for Canada in the field of international economic policy lie ahead. Great Britain is waging its greatest economic battle. Europe is too close to the edge of chaos which, if it happened, would be as complete as the disintegration after the fall of Rome. Hunger stalks at midnight and there is fear and unrest in the noonday sun. The whole complicated, delicately poised mechanism of the Western European democratic capitalist system is in danger. Distance would give Canada no immunity from the effects of its collapse.

What I have said suggests, I hope, that if there is no cause for panic, there is a vital necessity for foresight and care in working out our international economic problems.

It would have been the height of rose-water optimism

and moonlight illusion to have expected ease and stability after what the world has suffered, these last seven grim years. After such a world-shattering explosion, we had no right to expect that the pieces would flutter down into their accustomed places. We have a right to hope, however, that when they do settle, they will form a pattern which will permit Canada to play a peaceful, prosperous part in a world which will be worthy of those millions who have perished to make it a place fit for free men to live in.

The Unofficial Market for the Canadian Dollar in the United States

(*Editor's Note:* This subject has been one of wide comment during the last nine months. During an announcement made on 4th March 1947 in the House of Commons, Ottawa, on the taxation relief measures to be extended to the gold mining industry, Hon. Douglas C. Abbott, Minister of Finance, made the following comments, which are reprinted from Hansard:)

I WOULD also like to take this opportunity of clearing up one point on which I find considerable misunderstanding in some quarters. It has been suggested that the government is obtaining more than \$35 per ounce for the gold it sells abroad, because the Canadian dollar has been selling in the unofficial markets in the United States at a discount of several per cent. There are also suggestions that the industry should be entitled to the value of its gold converted at this unofficial exchange rate in New York. Let me say first of all that the proceeds of all Canada's sales of gold abroad are paid into the exchange fund account held by the foreign exchange control board and converted into Canadian dollars at the official rate of exchange, so that the government is making no profit in the way that some have apparently thought.

It would be out of the question to convert the proceeds of the sale of gold abroad into Canadian dollars through the unofficial market in New York and other American centres, and this is obvious when the nature of this unofficial market is understood. The transactions which take place in this market are only certain transactions between non-residents. All exporters of all products are required to account to the foreign exchange control board for the foreign exchange they receive from their exports and are not

permitted to sell it in the unofficial market. This is one of the most basic elements in our system of exchange control, because it is necessary that the foreign exchange produced by the sale of our exports shall be made available for the purpose of purchasing imports for Canada and paying our other commercial and financial bills abroad. This is the use to which the foreign exchange is put when it is sold to the foreign exchange control board. If the proceeds of our gold exports or any other exports were sold in the unofficial markets abroad, they would not be available to Canada for normal purchases or payments abroad, but would instead be diverted to the export of capital from Canada by non-residents, thus undermining one of the main purposes of foreign exchange control.

This will be clearer if I take a moment to explain in more detail the nature of this unofficial market. This market arises because certain Americans or other non-residents of Canada may wish from time to time to withdraw capital from Canada and they find that they are unable, under the Canadian foreign exchange control regulations, to withdraw it by purchasing United States funds from a Canadian bank in the normal way. As members of the house are aware, United States funds are provided under present policies for all current account transactions, that is to say, for all imports, for reasonable travel expenditures abroad, for the conversion of the income earned by Americans on their investments in Canada, and they are also provided for the repayment of debts, including outstanding bond issues which are payable solely or optionally in United States funds. In addition, there are certain other types of capital transactions which we are prepared to see take place in the form of Canadian dollars but for them we are not prepared to provide United States funds out of our official reserves. For example, an American granted a permit to sell a security in Canada comes into possession of Canadian dollars which cannot be converted into United States funds in Canada. Similarly with an American selling real estate in Canada or reducing his capital investment in a Canadian business. Nevertheless, although Canadian dollars so acquired are not convertible into United States funds out of our official reserves, they are not blocked. The American receiving them is perfectly free to sell them to another American who wants Canadian dollars, at whatever

THE UNOFFICIAL MARKET FOR THE CANADIAN DOLLAR

rate they agree upon. The American purchasing the Canadian dollars can only use them for certain purposes. For example he cannot use them to pay for Canadian exports on account of the requirement that exports from Canada to the United States be paid for in United States funds. The main purpose for which they can be used is to make new investments in Canada, though Canadian dollars can also be used for tourist expenditures here.

The fact that Canadian dollars acquired in the unofficial market can thus be used only for certain limited purposes naturally makes them less valuable in the hands of non-residents than United States dollars, which can be used for any purpose. Hence a discount may arise, but this discount is no indication whatever of the true value of the Canadian dollar. This discount represents merely the price paid by one non-resident to another as an inducement to make a capital investment in Canada which cannot be converted into United States funds through the official channels. This unofficial market is highly specialized and accounts for only a small percentage of our total international transactions.

While I realize that this is a highly technical subject, I thought I should make this explanation to remove some of the misunderstandings which appear to exist.

In closing I should like to emphasize that the new pattern of taxation of the gold mining industry which I have outlined must not be regarded as fixed policy. It represents a programme which the government considers proper under the present circumstances, and will, of course, have to be reconsidered when circumstances change and particularly if and when general economic conditions become much more favourable for gold mining.

MR. HACKETT: Will the Minister of Finance indicate to what extent the discount of the Canadian dollar in the United States market is attributable to the management of the Canadian dollar by the Canadian authorities?

MR. ABBOTT: I would say not at all.

A Statement of the Minimum Standards of Professional Practice Which Should Apply In Respect of Prospectuses

April, 1947

Bulletin No. 2

In nearly every instance in which an offering circular (prospectus) is prepared, a balance sheet and a statement of earnings, upon which a chartered accountant has reported, is included. In this particular field, as in any other, the practitioner must use his judgment to ensure that the financial statements do give what is, in his opinion, a true picture of the state of affairs of the concern and are not misleading. In published circulars there are many variations which appear to be the result, not of particular circumstances requiring special treatment but rather, of a lack of a standard which could be used as a guide. The Committee therefore, has drawn up what it considers are the minimum standards of professional practice which should apply.

Offering circular

The auditor should review the entire circular before it is printed to ascertain that, in his opinion, the contents, so far as they are related to matters with which he is familiar as a result of his examination, are not misleading. Unless given such an opportunity, the auditor should not permit the use of his opinion in the circular.

Report

The auditor's report, which should be printed in full, should contain an expression of his opinion concerning the statements presented and not merely refer to the fact that the statements have been prepared or examined by him. The auditor should not express an opinion if it is so qualified as to be useless to an investor and, in addition, should not express an opinion unless he has made sufficient examination to warrant its expression.

Consideration has been given to the extent to which accountants can properly rely on the work performed by other members of the profession not employed by them or acting as their agents, and by public accountants practising in other countries. The committee feels that no

hard and fast lines can be drawn and that the extent to which reliance can be placed on such work depends entirely on the circumstances in each particular case. A chartered accountant should not sign any opinion unless he has knowledge of the company's affairs and has made some direct examination himself. If, for certain subsidiary companies and branches, he relies on the reports of other accountants, he should have direct communication with such other accountants and advise them that he will rely upon their opinions in incorporating the figures reported upon with those examined by himself in the preparation of his report on the prospectus under consideration.

Balance Sheet

The balance sheet prepared for inclusion in an offering circular should meet not only the requirements of the applicable companies act, but also those of the "Statement of Standards of Disclosure" issued as Bulletin Number 1 of this Committee. The use of financial statements as of a date more than 120 days before the offering date should be discouraged.

Earnings

The statement of earnings should be for a sufficient number of years to give a reasonable picture of the operations of the business. Under today's conditions, having regard to the abnormal circumstances of war years, the legal requirement of three years' earnings, under the Dominion Companies Act, is usually not a sufficiently long period.

The statement of earnings should incorporate in the year affected any material adjustments which have been made in subsequent years through surplus or the profit and loss account.

In the case of stock or share issues, statements of earnings should show at least the following for each year:

- (a) profit before depreciation, interest on bonds or debentures, and taxes on income
- (b) depreciation provided
- (c) interest on bonds or debentures
- (d) provision for taxes on income
- (e) net profit for the year

In the case of bond or debenture issues, statements of earnings should show at least the following for each year:

- (a) profit before depreciation, interest on bonds or debentures, and taxes on income
- (b) depreciation provided
- (c) interest charges on senior bond or debenture issues which are not being retired.

but the committee considers it desirable that the statements also show interest on other bonds or debentures and provision for taxes on income.

The particulars of non-recurring profits and losses which have been excluded from the statements of earnings presented should be disclosed, if significant.

A statement of earnings is an historical statement. Changes in the figures to reflect changes or expected savings are dangerous, in that not all changed conditions are being reflected, whereas in fact the economic conditions existing during the period of the earnings statement may be entirely different from those prevailing today. To attribute to a former period certain conditions presently existing and at the same time to ignore other changed conditions, is likely to be misleading. For this reason such adjustments to earnings should ordinarily be avoided, but if used, the statements should set out clearly all such adjustments which have been made.

The use of average figures for a period of years, without disclosing the annual figures from which the averages were computed, is considered misleading.

Pro Forma Statement

If a pro forma statement is issued, it is important that it be clearly labelled as such and that complete disclosure be made of the underlying assumptions on which the statement is predicated. An opinion should not be expressed on a pro forma balance sheet unless there are firm commitments from responsible parties and reasonable assurance that the company's position will in fact resemble that shown by the statement.

This Statement of the Minimum Standards of Professional Practice Which Should Apply in Respect or Prospective

PROVINCIAL NEWS

tuses has received the unanimous approval of the Committee on Accounting and Auditing Research.

This bulletin was adopted by the Committee on Accounting and Auditing Research, after taking into consideration the comments received following publication of the tentative statement in THE CANADIAN CHARTERED ACCOUNTANT.

This bulletin is not to be considered to be retroactive or applicable to items of little consequence.

(The reader is referred to the Preface to Bulletins, October, 1946.)

Provincial News

Ontario

Over seven hundred members and students of the Ontario Institute gathered at the Royal York Hotel on Wednesday evening, 5th March 1947. The occasion was the annual mid-winter dinner which was presided over by H. P. Herington, President of the Institute. The guest of honour, Mr. L. B. Pearson, Under Secretary of State for External Affairs, spoke on the position of Canada in the post-war world, with particular reference to trade and commerce.

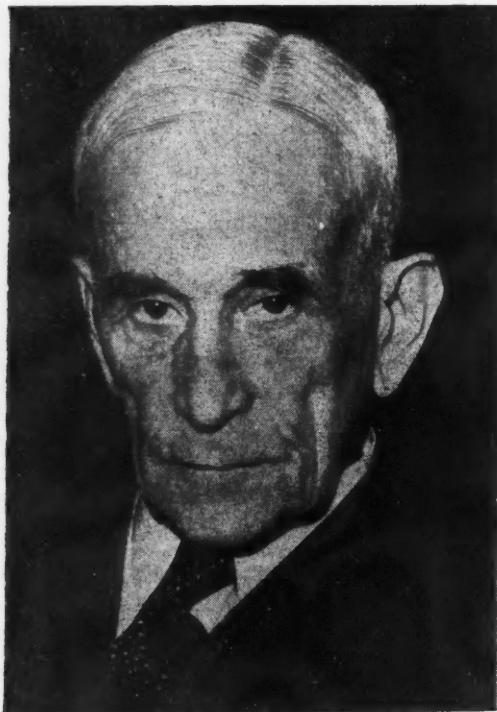
Among the head table guests were representatives of government, business and finance, including the Lieutenant-Governor of Ontario, the Chief Justice of Ontario and the Mayor of Toronto. Mr. Pearson was introduced by Mr. K. LeM. Carter, First Vice-President, and following his address Mr. J. Grant Glassco, Second Vice-President, expressed on behalf of the members their thanks to Mr. Pearson. Mr. R. C. Field, President of the Dominion Association, presented the silver medals awarded by the Association to Ontario candidates in the final and intermediate uniform examinations. The gold medals and prizes awarded by the Ontario Institute were presented by the Secretary-Treasurer, Henry O. Glover. The prize winners were individually congratulated by the Lieutenant-Governor, who also spoke briefly to the new members.

In the afternoon the President of the Institute presented certificates of membership to the successful candidates in the final examinations. Following brief remarks by Professor Smails of Queen's University the new members joined with their friends and relatives at afternoon tea.

Obituary

The Late George Edwards, C.B.E., LL.D., F.C.A.

Word of the death of Mr. George Edwards reached the Editor's desk as our March issue went to press, and it was not possible to include there more than a brief reference to his passing.



GEORGE EDWARDS

Mr. Edwards was born in Toronto on 25th March 1861 where he received his early education. In 1889 he became a member of the Ontario Institute and qualified for and received the degree of Fellow in that year. He became immediately interested in the affairs of the Institute and was

OBITUARY

elected to Council in 1890 and served continuously until 1926.

Upon his retirement from Council after thirty-six years of notable achievement, he was honoured by the members of the Institute at a banquet in the Great Hall of Hart House, where in the presence of representatives of Church, State, business and the professions, he was presented with an order to sit for his portrait. He later presented that portrait to the Institute and it now occupies an honoured place on the Library walls.

He served four terms as President of the Institute during the years 1895, 1896, 1897 and 1903-4, and at one time or another headed all its standing committees.

In 1902 the Ontario Institute conferred Life Membership upon him in recognition of his efforts in obtaining amending legislation to the Institute's Act of Incorporation, which secured for it the exclusive rights to use the appellation of "Chartered Accountant" and the distinguishing letters "C.A., A.C.A., and F.C.A.," for its members. This legislation was disallowed by Parliament but later re-enacted upon reaching agreement with other accounting societies. He took a prominent part in the negotiations leading up to the re-enacted legislation, which brought about a re-organization of The Dominion Association of Chartered Accountants and the establishing of reciprocal relations with the other provincial institutes and with societies in Great Britain.

For several years he served on the Council of The Dominion Association of Chartered Accountants and was elected its President in 1911-12. In the previous year he undertook the task of publishing **THE CANADIAN CHARTERED ACCOUNTANT** and continued as its Editor for many years.

Always interested in the students, he took a leading part in the organization of the Students' Association and gave lectures to that body. In 1924 he endowed the George Edwards prize, which is awarded annually to the candidate obtaining the highest aggregate marks in Accounting. In 1921 Mr. Edwards was charged with the duty of establishing uniform courses of study for the preparation of candidates for the Institute's examinations. Under his leadership and guidance, arrangements were concluded with

Queen's University and the study courses made compulsory to the Student Body. Queen's University was pleased to honour his efforts towards the advancement of accounting education by conferring upon him the degree of Doctor of Laws.

In 1919, he assisted in the formation of The Canadian Society of Cost Accountants and was a past president of that organization.

During World War I he gave his services as Auditor and Comptroller of the British Treasury in Canada of the Imperial Munitions Board and, in recognition of that service, was later created a Commander of the Order of the British Empire.

The Institutes of Alberta, Manitoba and Saskatchewan conferred Honorary Life Memberships upon him in recognition of his assistance and advice to them upon problems arising during the early days of their existence.

He was the founder of the present firm of Edwards, Morgan & Company in 1889 and was senior partner of the firm until his retirement in 1941.

Mr. Edwards' passing will recall to the memory of his early associates many incidents connected with the growth of the accounting profession in Canada. To the younger members who were not privileged to be intimately associated with him in these activities, we commend his memory and example.

FOREIGN EXCHANGE CONTROL

By notice of the Foreign Exchange Control Board, dated 3rd March 1947, the following names of countries are to be added to the list given on page 92 of THE CANADIAN CHARTERED ACCOUNTANT, February 1947:

Belgian Congo	Netherlands
Belgium	Netherlands East Indies
Luxembourg	Netherlands West Indies
Ruanda Urundi	Portugal and Portuguese Empire

The effect of this announcement is that, under United Kingdom regulations, sterling may now be transferred between accounts of residents of Canada and residents of the Belgian, Dutch and Portuguese monetary areas in addition to the other areas previously dealt with.

The Dominion Association of Chartered Accountants

Mid-year Executive Meeting

By Richard C. Field, C.A., President

The mid-year meeting of the Executive Committee of The Dominion Association of Chartered Accountants was held in Toronto on 4th and 5th March 1947. All members of the Executive Committee were present except Mr. C. F. Elderkin, Past President of the Association, who was unable to attend because of illness. Mr. Elderkin has ever been a tower of strength in the affairs of the Association and his absence was felt keenly by the members of the Executive Committee.

As in the past, the president and council of the Institute of Chartered Accountants of Ontario entertained the members of the Executive Committee of the Association at a luncheon. The members of the Committee were also guests at the mid-winter dinner meeting of the Institute on the Wednesday evening, where they were privileged to hear an outstanding address by Leslie B. Pearson, Under-Secretary of State for External Affairs, which is reprinted elsewhere in this issue.

The chairmen of the standing committees submitted their reports for the consideration of the Executive Committee.

The Committee on Accounting and Auditing Research has expanded its membership to include Mr. G. E. Martin of Halifax, Mr. Hugh Adair of Vancouver and Mr. R. A. Roberts of Winnipeg, in order to have its membership representative of all sections of the Dominion. Since the date of the annual meeting, the Committee has issued the Preface to Bulletins and Bulletin No. 1, entitled "A Statement of Standards of Disclosure in Annual Financial Statements of Manufacturing and Mercantile Companies". Bulletin No. 2, "A Statement of the Minimum Standards of Professional Practice Which Should Apply in Respect of Prospectuses" appears in this issue and will be sent to members in the near future. It is of interest to note that the Ontario Securities Commission has issued a memorandum, as to the standards that should prevail in statements filed with it. This memorandum is composed mainly of excerpts from

Bulletin No. 1 and the tentative statement of Bulletin No. 2.

Further bulletins in the course of preparation include one prepared by the Director of Research on the "Accounting Treatment of Certain Income Tax Items" and the proposed bulletin setting forth auditing standards in connection with the examination of financial statements.

The Education and Examinations Committee reported on the results of the December 1946 examinations and its plans for the coming year. 378 candidates wrote the intermediate examination and 254 or 67% were successful as compared with 63% in the 1945 examinations. 362 candidates wrote the final examination, including 64 who wrote supplementals, and of the candidates writing the full examination 113 or 38% passed and 85 or 29% were granted supplementals as compared with 34% and 29% in 1945. Of the candidates writing supplementals 19 or 30% passed compared with 52% a year ago. Having regard to the large proportion of ex-servicemen writing for the first time since their return, the above results were considered to be very satisfactory.

It is impossible to give consideration to the question of changing the date of the examinations from December to September until the swollen enrolment at Queen's University subsides to a point where its staff can handle the attendant problems of re-arranging the courses of instruction.

The Legislation Committee, working in conjunction with the Taxation Committee of the Canadian Bar Association, has prepared and submitted its recommendations on taxation to the Ministers of Finance and National Revenue.

The Magazine and Publications Committee requested greater co-operation from the Institutes in providing suitable material for publication. The Executive Committee is recommending to the Institutes that they appoint magazine committees, headed by members of the local councils, which would be subject to the ordinary requirements of reporting to their own councils. The Committee's report emphasized the problem of rapidly rising costs, e.g., the printing cost now amounts to 143.75% of that of a year ago. Acting upon the recommendations of the report, the Executive

PERSONALS

Committee has set-up a special committee to inquire into the policies and problems of the magazine and to submit its recommendations at the time of the annual meeting.

The Post-war Planning Committee reported that its brief on the Review of the Dominion Companies Act had been completed and was being submitted to the Secretary of State and the various Provincial Secretaries. The completion of this task finishes the work that the Committee was requested to do.

The Executive Committee approved the arrangements for holding the 1947 annual meeting in Vancouver on September 9th, 10th and 11th. The council and various committees will meet on September 8th and 9th. The Hotel Vancouver will be the headquarters for the meeting and the efforts of the members of the Institute of Chartered Accountants of British Columbia will be aimed at the enjoyment of all attending.

Personals

William D. Sumner, C.A., announces that C. Douglas Mellor, C.A., will be admitted to partnership as from 1st March 1947. The business will be carried on under the firm name of Wm. D. Sumner & Company, chartered accountants, 407 McGill Street, Montreal, P.Q.

J. Fulton Camelford, C.A., announces that while endeavouring to obtain suitable office accommodation he will conduct his practice from his residence 624 Roslyn Avenue, Westmount, Montreal, P.Q.

Current Accounting Literature

By Frank S. Capon, C.A.
Montreal, P.Q.

"The entity theory of consolidated statements" is the title of monograph No. 4 of the American Accounting Association (Bloomington, Indiana). This pamphlet by Maurice Moonitz, deals in a somewhat theoretical manner with the historical background of consolidated statements, the basic premises of the theory of consolidation, the scope or area of consolidation, elimination of inter-company transactions, treatment of intercompany investments and outside interests. The monograph undoubtedly adds an important document to our meagre stock of basic accounting treatises, but it could well have been made of greater value to general accountants if unnecessarily technical language had been avoided. The main principle, which gives rise to the title, is that consolidation should be limited to units which together form an economic entity, and that consolidation in other instances is misleading and therefore unsound.

Distribution Methods and Costs

The first article in the 15th February N.A.C.A. Bulletin by W. E. Perry, deals with the accountant's task opposite the problems of distribution. After summarizing the functions of the sales department, the author reviews the methods of market study, establishment of quotas, salesmen's reports, and standard costs for distribution. It seems inevitable that today's greater industrialization will bring more intensive competition once deferred demand has been met, and control and cost efficiency in distribution systems will be the order of the day.

PUBLICATION ADDRESSES. AND PRICE PER COPY POSTPAID

- Accountancy, Incorporated Accountants' Hall, Victoria Embankment, London, W.C. 2, England. 1 shilling.
Accountants' Magazine, 28 Rutland Square, Edinburgh, Scotland. 1s. 3d.
Accounting Review, School of Commerce, Northwestern University, Evanston, Ill., U.S.A. \$1.
The Accountant, Moorgate Place, London E.C. 2, England. 1 shilling.
The Controller, 1 East 42nd St., New York, N.Y. 50 cents.
Cost and Management, 66 King St. East, Hamilton, Ont. 35 cents.
Harvard Business Review, Harvard University, Boston, Mass., U.S.A. \$1.50.
Journal of Accountancy, 13 East 41st St., New York, N.Y. 35 cents.
The Internal Auditor, 29 Atlantic Street, Stamford, Conn., U.S.A. \$1.
National Association of Cost Accountants, 385 Madison Ave., New York. 75 cents.
Taxes—The Tax Magazine, OCH Canadian Limited, 31 Whicock St., Toronto, Ont. \$6.00 per year. (American Publication).

Control of Maintenance Costs

The same bulletin contains an outstanding article by T. F. Bradshaw on the control of maintenance expenditures. First of all, the author states, minor maintenance should be segregated and controlled on a flexible budget basis. For major maintenance costs, he favours a reserve basis by which major maintenance costs will be estimated over a period, then apportioned to the fiscal years in the period in order to set aside a reserve to meet the charges. By this means, this type of charge is allocated to the periods getting the benefit, maintenance allowances are set for standard costs, and it is possible to control the time and amount of expenditures. It is, however, difficult to estimate the future costs of major repairs, particularly in times of fluctuating prices and labour rates. The necessity for annual review of the entire reserve situation is emphasized, in order to ensure that it does not run off the rails.

A new department has been added to the already impressive contents of the "Journal of Accountancy". Commencing with the February issue, a monthly section entitled "Comments on Accounting Procedures" edited by Carman G. Blough, will aim at presenting information concerning the practical application of accounting principles, and will include comments and expressions of opinion received from members of the institute or others. This type of forum can be invaluable for publicly airing the pros and cons of many of our perennial and new accounting problems.

Inventory Valuation

Under the heading "Accounting Principles", Mr. F. R. M. dePaula has written a brief but outstanding article on inventory valuation in the 25th January issue of "The Accountant". The article is mainly a detailed review of Recommendation X of the British Institute, but Mr. de Paula also argues in favour of recording inventories only at cost for income statement purposes, and using "lower of cost or market" in the Balance Sheet. He also covers such points as unit cost, first in—first out, average cost, standard cost, last in—first out, overhead in inventory and market value.

Proper Use of English

An all-too-short article on use of English by accountants has been contributed by H. C. Hasbrouck in the February

"Journal of Accountancy". A number of the most prevalent misuses are listed and explained, and there are indeed few of us who consistently avoid these pitfalls. It is of prime importance for accountants to be able to express themselves, orally and in writing, both clearly and precisely. Incorrect usage of our language can only leave an impression of careless or slipshod work, as Mr. Hasbrouck states, and no professional man can afford to leave such an impression with his clients, actual or potential.

Accounting for the United Nations Organization

J. B. Payne, of the United Nations Bureau of the Comptroller, has published in the February "Journal of Accountancy" an interesting outline of the accounting procedures and organization needed to handle the financial work for the United Nations. While there may be no manufacturing operations, selling problems or complicated costing, there are some complexities not met with in any other organization.

Balance Sheet for Democracy

C. R. Noyes, president of the National Bureau of Economic Research, has presented in the February issue "Journal of Accountancy", an unusual article designed to make people aware of how they fit into the nation's economy. He produces a balance sheet for the sum of the private citizens, and one for the public in the person of government, then consolidates the two—properly, since government and the people are synonymous in democracy. The true effects of government borrowing and spending are shown with startling clarity, and the mythical nature of the wartime savings of individuals in the form of government bonds is brought into focus. This original mechanism shows us just how one's individual financial status is inextricably bound up with those of one's fellows, and of the public at large.

Overhead Costs

A plea to accountants to avoid placing too much stress on the distribution of overhead costs is included in the article by H. Norris in the 18th January issue of "The Accountant". In any event, the writer points out, such allocations can never be accurate, and he also argues that overheads should not be included in inventory values. In so far as costing for selling price policies is concerned, he feels that other factors establish prices, and costs at best

can only inform the manufacturer whether or not he has earned a profit.

Accounting Developments in the U.S.

The second and concluding section of G. D. Bailey's survey of accounting development in the U.S. appears in the February issue of "Accountancy". Dealing with conservation, form of income statement, cost and value, accounting for taxes, topical bulletins, and other points, the summary emphasizes that there are differences of opinion or practice between Canadian accountants and those in the U.S. as well as those in the U.K. There is much to be gained by such studies of the views and conclusions of other accounting bodies.

Uniform Accounting and Financial Control

Some of the aspects of uniform accounting are outlined by E. Harris in the January issue of "Accountancy". It appears obvious that a degree of uniformity in accounting within industrial groups may be of value, particularly if the component companies are members of a trade association and can each obtain the benefits of developments in the system and of statistics produced on uniform bases. The case made in this instance, however, is by no means convincing, and it is difficult to see who gets the real benefit, (apart from a totalitarian government) out of complete uniformity.

Cost Accounting in the Mining Industry

A thesis on the above subject by H. C. Poole appears in the January issue of "Cost and Management". Those concerned with this specialized field of cost accounting will be interested in the article, which goes into detail on cost distribution and make-up of cost sheets.

Declining Balance Depreciation

For many years some accountants have argued in favour of depreciation on the declining net balance of asset values, and recently the U.S. Government has recognized the declining balance method for tax purposes using rates not in excess of 150% of straight-line rates. An extremely sound, well-illustrated article on the effect of straight-line scientific declining balance, and the declining balance of 150% of straight-line methods, is published in the February issue of "Taxes."

Organization for Effective Control

The February issue of "The Controller" contains an article by D. M. Sheehan setting out in some detail the organization necessary for effective financial and operating control. Based on a system of forecasts covering the sales, production, research, financial and accounting divisions of a company, the author's suggested methods provide for a series of reports to management on the results from operations and variations from forecasts.

Corporate Reports to Stockholders

Some observations on trends in corporate reports to stockholders are presented by S. Lieberman in the February issue of "The Controller". Particular emphasis is being placed on format and charts, and in this connection Mr. Lieberman points out the importance of keeping charts simple, and showing the minimum number of facts on each chart. The chief accounting official's responsibility for ensuring that financial sections of such reports are complete, adequate, and not misleading is so great that he must of necessity have an intimate connection with the preparation of annual reports.

Experience as a Necessary Qualification for Accountants

I. N. Frisbee, of the University of California, states in his article in the January "Accounting Review" that there is no substitute for actual experience in the training of accountants. It is only by practical application of classroom theories that the auditor or accountant in training can permanently consolidate his knowledge, and his inevitable mistakes are probably his best teacher.

Education for Public Accounting

No accountant interested in accounting education should miss the article by Emanuel Saxe in the January "Accounting Review". Mr. Saxe outlines step by step, a diagonal college course designed to emphasize the cultural subjects in the earlier years with only a smattering of commercial subjects, with the emphasis gradually changing until in the final year the great part of the time is spent on commercial and accounting work. By this means, there is a gradual break-away from the general work of high school to the technical world of business. The author lists in detail the subjects that should be taken each year, and the reasoning behind his choice.

Book Reviews

Commercial Policy in the Canadian Economy by Orville John McDiarmid, published in Canada by Reginald Saunders, Toronto. \$6.75, 388 pages.

This is an historical and analytical account of Canadian foreign trade policy from the British conquest of 1763 to the outbreak of the second world war in 1939. The author stresses the industrial and commercial consequences of legislative and executive action taken by colonial, imperial and federal governments in the field of trade policy. Tariff is his main concern since the customs tariff has been the principal instrument employed by the Canadian government to promote and shelter the domestic economy. The background given in this book will be most useful to anyone now taking interest in new world trade arrangements. It is an interesting study of the subject, well-written and easy to read.

A Concise Manual of Statistics by Clement Burton, Fellow of the Royal Statistical Society, published in England by Gee and Company (Publishers) Limited, 27-28 Basinghall Street, London, E.C. 2, Post Free 15/11d, 175 pages.

This book has been written in recognition of the increasing importance of the subject of statistics in commercial and municipal activity and while it has been written primarily for students of the Institute of Municipal Treasurers and Accountants (Incorporated) it will be of interest to all engaged in statistical compilation and analysis. It passes from elementary principles to more advanced methods of the science in an easy progression. For those with an interest in statistics as distinct from those who are students or masters of statistics, chapter VI on Averages is particularly useful.

Security Exchanges in World Finance by Roy A. Foulke of Dun & Bradstreet Inc.

This interesting booklet contains two studies, one of which is not mentioned in the title. That which has been omitted from the title is a series of important balance sheet and operating ratios for 78 different lines of business based on results of 1945 and in some cases the period 1941 to

1945. Fourteen important 1945 ratios are treated in respect of 72 lines of business activity, dealing separately with 36 classes of manufacturers, 24 classes of wholesalers and 12 classes of retailers. Other tables give the same fourteen ratios for each year from 1941 through 1945, with the five-year average for the period, for 70 lines of business activity, consisting of 42 classes of manufacturers, 21 classes of wholesalers and 7 classes of retailers.

The article, for which the booklet is named, is an interesting review of the arrangements made for trading in foreign securities in United States markets. Of interest to accountants will be the discussion on the unification of disclosure requirements under laws of the United States and Great Britain. While the discussion deals particularly with British Securities traded in the United States and the degree of disclosure suggested by the Cohen report of the Committee on Company Law amendment, it could have been carried further to the Canadian scene. Any revision of the Dominion and Provincial Companies Acts should be undertaken having in mind, in addition to matters previously discussed in THE CANADIAN CHARTERED ACCOUNTANT as a result of reports made by Committees of The Dominion Association of Chartered Accountants, the requirements applied by other countries to securities to be traded in their markets. It should be no more difficult to list securities for trading in one country than another and Mr. Foulke's suggestion that an Anglo-American Securities Commission should analyze and study this subject should be enlarged to include Canada. It is interesting to note that, while he is most concerned with British issues, tables given by him of stock issues and domiciles listed on the New York Stock Exchange and Curb Market as at 28th June 1946 produce the following figures:

	Number of Stock Issues	New York Stock Exchange	New York Curb Market
Domestic Corporations	1,279	732	
Foreign Corporations			
Canada	12	68	
Great Britain	2	27	
All other countries	5	5	
	<hr/> <hr/>	<hr/> <hr/>	
	1,298	832	
	<hr/> <hr/>	<hr/> <hr/>	

BOOK REVIEWS

Report of the Wartime Prices and Trade Board. 1st January 1946 to 31st December 1946 including important developments up to 1st February 1947. Price not stated. The King's Printer.

Annual Report of the Department of Trade and Commerce for the fiscal year ending 31st March 1946. Price 25 cents. The King's Printer.

Foreign Trade. Published weekly by Foreign Trade Service, Department of Trade and Commerce. \$1.00 per annum to be remitted to the King's Printer, Ottawa, for delivery in Canada; \$3.50 per annum for delivery outside Canada.

The 1946 report of the Wartime Prices and Trade Board together with the current annual report of the Department of Trade and Commerce give one a most complete story of the government methods taken to increase and decontrol trade both domestic and for export and the results of these efforts. Foreign Trade, the successor to the Commercial Intelligence Journal, gives each week interesting developments in the foreign fields by way of reports from trade commissioners abroad and also much other timely information for those interested in markets abroad. These publications are recommended to Institute libraries and to members.

For further good reading on price control, see "Canadian War-time Price Controls, 1941-6," by K. W. Taylor, in the February 1947 issue of "The Canadian Journal of Economics and Political Science".

**LEGAL DECISIONS
RESPECTING THE INCOME WAR TAX ACT
OF CANADA**

CARRYING ON A BUSINESS

George W. Argue, Appellant

—and—

The Minister of National Revenue, Respondent

(The Exchequer Court of Canada, Angers, J., 6th March 1947)

The appellant, manager of the International Loan Company, filed his personal excess profits tax return for the year 1940 showing a profit of \$903.94. The Minister determined the income subject to excess profits tax as \$7,366.95, the difference being, substantially, income from mortgage investments and agreements for sale held as personal investments, which were included for the stated reason that these were derived from "being in business" or from "a business" or "one or more businesses" as defined in paragraph (g) of subsection 1 of section 2 of The Excess Profits Tax Act.

The evidence showed that Argue devoted substantially his full time to the conduct of the affairs of the International Loan Company, his secretary, paid by himself, taking care of the detailed work of his personal investments. During the year 1940 eighteen mortgages or agreements for sale matured and had to be replaced or renewed. The approximate value of the maturing agreements and mortgages was \$27,700 out of a total of \$102,379.24 invested as at 31st December 1940. The appellant's personal monies were invested in securities similar to those in which the funds of the International Loan Company were invested.

In addition to looking after the details of his personal investments and spending a portion of her time on the work of the Company, the appellant's secretary looked after the details of an insurance agency which he operated. This business was engaged chiefly in providing fire insurance coverage for the properties, on the security of which the company invested its funds.

The appellant claimed that his income from personal mortgage investments and agreements should not be taxable under the Excess Profits Tax Act.

HELD: after referring to a number of decisions dealing with the question of carrying on a business or trade the judgment concluded as follows:

"With only the figures of 1940 I do not see that I can reach any other conclusion than that the appellant was carrying on a business and that he is accordingly liable to the tax provided for by paragraph (g) of subsection 1 of section 2 of The Excess Profits Tax Act.

"For the reasons aforesaid I am satisfied that the assessment and the decision of the Minister affirming it must be maintained and the appeal dismissed. The respondent will be entitled to his costs against the appellant."

LEGAL DECISIONS

DEPLETION ON LICENSED TIMBER LIMITS

D. R. Fraser & Company Limited, Appellant

—and—

The Minister of National Revenue, Respondent

(The Supreme Court of Canada, 4th February 1947)

The appellant company carries on a lumbering business in the Province of Alberta, operating timber limits which in the 1941 taxation year were held under license from the Government of the Province of Alberta. The question under appeal from the decision of the Exchequer Court was whether or not the company has a right to an allowance for exhaustion or depletion under section 5(1)(a) of the Income War Tax Act. The company claimed that under section 6(a) it was entitled to deduct the costs of acquiring timber as disbursements or expenses wholly, exclusively and necessarily laid out to earn income and also that the allowance for the exhaustion of timber limits under section 5(1)(a) is an allowance unrelated to costs or to the nature of its holdings in the land so that if the income is derived from timber limits then in the determination of the assessment an exhaustion allowance must be made.

HELD: The revision of section 5(1)(a) in 1940 gave the Minister discretion not only as to the amount of the allowance, but also as to whether any allowance for exhaustion should be made. The judgment states in part "In the present case, admittedly the company has recovered by way of deductions from its income all of the outlay, capital and operating, which it has put into the business. What is contended is that it has a valuable asset in the standing timber; that the capital employed in the operations and allowed was deductible as expense necessary to earning the income; and that the right to depletion is in respect of the remaining asset over and above any capital investment . . ." "Even conceding an absolute right to an allowance, it is necessarily bound by the limitation of value spread evenly over the asset as a whole; and since the statute does not prescribe the basis, the Minister must be free in any case to adopt one reasonably designed to carry out the purpose intended. On this assumption, I take the word 'may' to include a discretion in that choice; and that the basis of actual capital investment may be used by him in any case is, I think, beyond doubt. Ordinarily the increments of return would attach to every unit of asset and value, but here the whole has been recovered, by relation to part only of the asset."

"It is objected that in a case of logging operations in British Columbia, an allowance for exhaustion was made and it is urged that the statute implies an equality of treatment to all operators which has here been denied. But the evidence falls far short of establishing a similarity of conditions sufficient to raise the question of equality; and as the lumber industry as a whole is not a single unit for discretionary treatment, no foundation for the complaint has been laid."

The appeal was dismissed with costs.

DOMINION PRIZE WINNERS IN 1946 EXAMINATIONS



A. D. Mackay

(Ontario)

Silver medal and cash prize of \$25 for second highest standing in Canada in the final examination.



Marcel Hurtubise

(Quebec)

Gold medal and cash prize of \$50 for highest standing in Canada in the final examination.



R. P. Boddy

(Ontario)

Silver medal and cash prize of \$25 for highest standing in Canada in the Intermediate examination.

EXAMINATION RESULTS

Examination Results

Alberta

The Institute of Chartered Accountants of Alberta announces that the following are the successful candidates in the December 1946 uniform examinations:

Final: John R. Leard, Norman E. McLean, Bruce Sangster, Joseph G. Simonton, Gordon S. Stark and Byron C. Tanner.

Granted Supplemental Examinations: Thomas G. Brown, Accounting I and III; Allen L. Crummer, Auditing; James P. French, Accounting four papers; David J. Grier, Accounting III and IV; Byran C. Grineau, Auditing; Keith S. Holman, Auditing; and Robert A. Wilson, Auditing.

The following obtained highest marks in the province and were awarded prizes: Final—J. R. Leard; Intermediate—W. P. Gordon; Primary—W. B. Adamson.

British Columbia

The Institute of Chartered Accountants of British Columbia announces that the following are the successful candidates of the Institute in the December 1946 uniform examinations, set throughout the Dominion by a joint committee consisting of representatives of the provincial institutes of chartered accountants.

Final: Kenneth S. Beaton, Miss Audrey E. Jost, Denham J. Kelsey, E. G. Legg, C. W. Mavor, A. J. Park, Desmond R. Smith and F. E. Walden.

The Institute's gold medal for highest place among the British Columbia candidates in the final examination was won by Denham J. Kelsey, and Desmond R. Smith won second highest standing.

Intermediate: E. C. Akhurst, L. A. Baldock (Kelowna), Ian H. Bell, E. C. Bickerton, D. A. G. Bone, Ernest Burnett, Graham A. Chambers, H. G. Craven (Victoria), H. F. Field, M. D. Graham, J. McG. Hamill, H. E. Hender, J. D. Manson, W. R. Myhill-Jones, R. J. Nation (Victoria), L. G. Ridgway, Stewart Routledge, D. L. Rumball, D. W. Smallbone, J. M. Standeven, J. W. Stacey, J. A. Sutherland, W. S. Wate and J. C. Yolland.

The Institute's silver medal for highest standing among the British Columbia intermediate candidates was won by Graham A. Chambers and second place was won by H. G. Craven of Victoria.

Primary : W. E. Adam, M. H. C. Anderson, J. F. Arthur, L. S. Ashley (Kelowna), R. G. Bell, John Bradley, A. D. Browne, H. V. Casson, A. M. Clark, J. A. Crawford, D. G. Cruickshank, R. C. Ellis, G. O. Fahrni, L. V. Flury (Victoria), R. L. Foster, D. F. Granger, J. W. A. Green (Victoria), R. D. Henderson, C. W. Hofstrand (Victoria), T. A. Hogan, W. R. Hollingshead, W. G. Homenuk, C. M. Humphrys, F. W. Hurford, W. R. Lane (Nanaimo), Laurence Lefeaux (Nelson), J. M. Macdonald, R. A. McInnes, R. T. McKean (Victoria), F. K. McKenzie, C. G. Manzer, W. D. Matheson, D. L. O'Brien, W. B. Oughton, Mack Richards, D. A. Ross, D. H. M. Ross, J. C. Ryan (Kelowna), A. F. Sinclair, C. E. Sladen (Kelowna), F. D. Smith, J. Bernard Thomas (New Westminster), Frank Waite, W. K. Waldron, H. R. C. Wallbaum, A. A. Waring, H. L. Warner and D. A. Young (Victoria).

Highest standing in the primary examination of the Institute was won by J. Bernard Thomas of New Westminster, and second place was won by H. R. C. Wallbaum.

All candidates, unless otherwise shown, are from Vancouver:

Manitoba

The Institute of Chartered Accountants of Manitoba announces that the following are the successful candidates in the December 1946 uniform examinations:

Final: William S. Barker, John K. A. Brown, E. Roy Essery, Thomas B. Milne, William G. Spalding, and David D. Thomas.

Granted supplemental examination: Ingle E. Argue, Keith Campbell, John G. Gates, Frederick Groves, Richard E. Lavender, William F. McCaffrey, James Reid, Harold S. Sigurdson, Stanley Tait, Angelo J. Tonelli and Lorne Turner.

David D. Thomas was awarded a prize of \$100 by the Institute as the highest ranking Manitoba candidate.

William G. Spalding was awarded the John Parton prize of \$50 for ranking highest among the Manitoba ex-service-men in the final examination, and a prize of books for ranking second highest among all Manitoba candidates.

Intermediate: John W. Beech, Morrison S. Blanchard, John V. Cortens, Bernard D. Crookes, Peter W. Dickie,

EXAMINATION RESULTS

William M. Douglas, Lloyd C. Finnen, John Ellis Floyd, Albert T. Gaudet, Gordon A. Gislason, Robert G. Goodman, Donald M. Gordon, Kenneth E. Gray, David Halpern, James H. Hill, Allan E. Irvine, Andrew S. Jackson, Robert B. King, Phillip Kohnen, Paul B. Krawetz, William A. Kremppin, Paul Lawson, John B. Lonergan, John A. McAllister, Jack L. MacDonald, Peter N. Monk, Arthur R. Morison, Lawson A. Ogg, Charles E. Parker, Ross F. Phillips, John Henry Quick, Jean Reid, John S. Robertson, Wilfrid Sharp, Phillip Sweiden, Herbert A. Swift, Donald A. Tomlin, Douglas A. Wickett, Raymond Wildgoose, Faye Wyman and Meyer Zolf.

Paul B. Krawetz, who secured first place among the Manitoba candidates in the intermediate examination, was awarded the W. A. Henderson Silver Medal and a Scholarship of the value of \$50.

New Brunswick

The New Brunswick Institute of Chartered Accountants announces that the following are the successful candidates in the December 1946 uniform examinations of the provincial Institutes:

Final: W. W. B. Dick.

Intermediate: R. E. McAfee.

Primary: W. W. Blackie, J. N. Burnham, Alcide Gagnon, J. H. Harper, J. F. Lenihan, W. G. Steel and A. G. Warner.

Nova Scotia

The Institute of Chartered Accountants of Nova Scotia announces that the following are the successful candidates of the Institute in the December 1946 uniform examinations:

Final: John Allan Conway, George Arthur Finlay, Spencer Sutherland MacIntosh and Hugh Edgar Spencer, all of Halifax.

Intermediate: Clyde G. Blakeney, Harold E. Crosby, George L. Doucet, Delmar F. Horton, Howard V. Kelly, Alfred J. Reynolds (Sydney), and W. Grant Thompson (New Glasgow).

Primary: David R. Butler, Weldon D. Coleman, William B. Draper, Ronald G. Flewwelling, Lowry F. Garber, Quentin A. Haughn, John R. Moore, George M. Murray, Neil

F. MacLeod, and Freeman G. Penny (Corner Brook, Newfoundland).

Ontario

The Institute of Chartered Accountants of Ontario announces that the following are the successful candidates in the December 1946 uniform examinations:

Final: T. C. Adams, D. P. Aitkens, R. G. Aston, P. T. Barnes, J. W. Bavis, F. A. Bennett, P. W. Bennett, R. A. Blair, W. Brody, E. K. Brunton, B. A. Caplan, M. Cole, H. Dessen, L. H. Dixon, J. N. Fenton, J. Fink, N. Freeman, F. W. Fromm, C. F. Gaviller, J. J. Gotleib, C. G. Greenfield, P. Grimson, D. D. W. Irwin, R. E. F. Jones, R. C. Kilgour, R. A. Lachance, S. Lerner, A. D. Mackay, H. Magder, S. B. Marks, E. D. K. Martin, P. G. McHardy, J. S. McKeown, J. S. McGibbon, G. C. Mills, E. J. Mitchard, J. H. Moore, Miss G. Mulcahy, J. S. Murton, K. R. Oswell, G. D. Pattison, A. G. Rankin, I. Reiss, M. Robbins, J. F. Roberts, M. M. Robertson, W. G. M. Robinson, H. P. Sellers, C. A. Sharpe, J. W. Sinclair, W. J. Snowball, A. E. Stead, A. N. Steiner, D. H. Stodart, R. R. Sutherland, J. C. Tinkham, W. B. Winberg, J. G. Woolsey, M. A. Young and G. R. Yule.

Granted Supplemental Examinations: G. R. Barrett, Accounting III and IV; R. I. Bishop, Accounting four papers, A. J. Bohnen, Accounting four papers; C. O. Boyce, Accounting four papers; W. E. Case, Accounting four papers; A. A. Conlin, Accounting four papers and Economics; J. M. Cumming, Auditing; F. L. Day, Accounting four papers, W. K. Douglas, Accounting four papers; K. H. Edwards, Accounting four papers, S. E. Ewens, Auditing; Miss N. M. Foulds, Accounting four papers, T. G. Gedge, Economics; A. E. Guyatt, Accounting four papers, G. A. Holmes, Auditing; H. R. Holmes, Accounting I and III and Economics; A. G. Isbister, Accounting four papers; L. H. Johnston, Auditing; O. T. L'Esperance, Accounting I and II and Economics; R. E. A. Lindsay, Auditing; L. J. Mackenzie, Auditing; F. A. Matthews, Auditing; A. W. Moreton, Accounting four papers, H. A. Morris, Accounting four papers; W. M. Myers, Accounting four papers; D. W. McKinon, Accounting I and IV; L. E. Newth, Accounting I and III; C. J. Nickleson, Accounting four papers; L. W. Pastorius, Accounting four papers; T. M. Plewes, Accounting four papers; W. W. Prest, Accounting four papers; J. C.

EXAMINATION RESULTS

Reid, Auditing; H. E. Roper, Auditing; H. R. Sanders, Accounting four papers, R. S. Slater, Auditing; L. Soberman, Accounting four papers; J. C. Sutherland, Accounting four papers; N. Tessis, Auditing; A. M. Thornhill, Accounting four papers; W. A. Turner, Economics; H. A. Watson, Auditing, E. A. Welch, Accounting I and II; K. L. Welch, Accounting I and III; R. W. Wetlaufer, Accounting four papers; and J. D. Wilson, Accounting I and II.

Intermediate: I. M. Alexander, P. J. Ambrose, L. F. Anderson, C. L. Anger, F. P. Anttila, H. E. Bailey, F. N. Beard, L. G. Belyea, G. C. Berry, C. G. Black, J. W. Blodgett, R. P. Boddy, G. H. Boody, E. D. Botsford, M. C. Burnes, E. G. Burnside, J. L. Chadwick, B. G. Childs, G. M. Clare, B. H. Cook, W. B. Coutts, J. B. Crammond, C. B. Dales, C. S. Doidge, J. A. Edds, R. H. Ellison, G. Elmslie, V. R. Ensom, W. E. Essery, G. E. Evans, W. W. Evans, G. D. Foster, R. A. Francis, I. B. Frankel, J. Funk, Miss D. Gamble, F. A. Grant, R. Greenshields, D. M. Haig, M. A. H. Harper, J. Hershoran, P. Hickey, F. L. Howard, S. H. Humphrys, R. Irvine, V. G. Jackson, J. D. Jarvis, L. E. Jess, L. E. Johnston, L. A. Kaake, R. J. Kane, J. G. Kingsmill, J. F. Knight, Miss J. Laker, K. T. N. Lapp, Miss P. M. Lear, H. F. Lipovitch, F. J. Lovett, F. P. Lumbers, N. H. MacDonald, D. A. Macfarlane, I. R. Martin, D. J. Matthews, C. W. Milner, I. Mintz, S. Mintz, R. P. Morris, J. A. Muir, J. M. Mulholland, G. H. D. Munro, S. Myers, J. W. McClelland, E. B. McConkey, E. E. McConnell, W. C. McDonald, D. O. McLean, Miss C. E. McNabb, G. T. O'Gorman, A. Pal, G. N. C. Patterson, J. C. Pattinson, J. Perkal, J. J. Phillips, R. H. Pope, J. D. Porter, R. H. Purdy, J. M. Read, W. N. Richmond, F. G. Robertson, R. H. Rose, G. N. Saunders, R. G. Saunders, G. A. Savage, D. G. Scott, W. R. Scott, W. L. Seigel, D. W. Shugart, J. H. Silverthorn, R. M. Skinner, R. W. Sleeth, H. Soupcoff, B. Springer, H. Strom, R. K. Sullivan, A. S. Tanner, G. A. Taylor, R. B. Taylor, W. L. Taylor, E. B. Thomson, C. H. Tod, H. Turnmann, G. J. Tyler, T. Van Zuiden, A. Waisglass, M. A. Wallis, H. C. Wellington, Miss E. Williams and W. N. Willoughby.

Primary: V. C. Abrey, G. R. G. Aman, K. W. Anderson, D. Armstrong, G. V. Ashworth, W. J. L. Bailey, S. C. Bate-man, R. H. Beaumont, L. A. Bellamy, I. A. Bernstein, P.

E. Best, W. C. Blewett, Miss M. L. Bower, R. L. Boynton, R. L. Brockington, W. A. Bryden, I. E. Bull, M. S. Cainer, D. G. Campbell, T. R. Canden, C. B. Clarkson, M. S. Cole, Miss G. C. Conmee, J. R. Cooke, J. A. S. Cookson, D. L. Copeland, S. H. Coxford, Wm. Curran, R. de la Franier, A. Dickenson, E. C. Direnfeld, E. Dodd, Miss F. Doyle, G. E. Eyre, R. Fisher, P. S. Foulds, W. W. Frazer, G. Frost, H. J. Funk, C. G. Garden, R. A. Gourley, A. M. Grainger, A. E. Greenspan, M. G. Harris, J. W. Hartwell, H. S. Hazlitt, F. H. Headley, G. W. Henderson, Miss R. E. Hicks, R. D. Hills, M. Holiff, A. D. Horwitz, M. Hosick, J. E. Howe, G. E. Isaac, N. H. Jeffries, H. E. Jodoin, W. K. Jones, D. R. Keedwell, H. R. Kemp, J. Kerzner, J. J. Kofman, J. F. Kosalle, M. Kopstick, B. Kurtz, I. L. Landau, G. Lee, J. M. Lewis, R. D. Lewis, R. T. Linklater, F. L. MacDonald, W. L. Macdonald, D. Angus MacFarlane, C. B. Magee, A. Marcus, E. J. Martin, A. J. Mendelson, W. R. Miller, W. S. S. Milne, A. B. Mitchell, D. B. J. Morin, N. Morris, D. P. Morrison, J. E. Mullen, J. A. McCleery, A. McIntosh, L. F. McKay, J. C. McDowell, J. R. McMillin, J. G. E. McWade, H. Nisker, R. E. Nopper, M. Olynyk, C. J. O'Keefe, C. E. Otton, G. W. Palin, G. S. Patchet, R. F. Patterson, A. Peirol, H. Perlmutter, E. A. Pichora, M. Pomerlan, A. J. Pomes, J. G. Prangley, J. P. Prince, R. J. B. Ray, S. Rennie, S. Rine, E. Robinson, E. D. Rushbrook, James Ryan (Jones Avenue), W. R. R. Savage, C. R. Simpson, G. J. Sheppard, J. Smith, L. E. Smith, S. R. Smith, A. Soren, W. E. A. Stapells, N. Starr, H. E. St. Louis, D. L. Storey, D. E. Taylor, J. D. Taylor, A. K. Thompson, R. W. Ticknor, P. H. Uffelman, S. Venn, J. K. Walker, G. A. Webster, W. R. Weinstein, G. M. Welch, L. A. Wells, B. E. Wheatley, D. G. Wilson, H. V. Wilson, L. G. Wren, J. Young, and S. M. Zweig.

The prizes have been awarded as follows:

Final: Institute Gold Medal, J. S. McGibbon; Special Gold Medal and Prize to ex-service man with highest marks passing examination, A. D. Mackay; George Edwards Prize, R. A. Blair; W. T. Kernahan Prize, A. N. Steiner; E. R. C. Clarkson Prize, E. D. K. Martin.

Intermediate: Institute First Prize, Miss E. Williams; Institute Second Prize, L. E. Jess; George A. Touche & Company Active Service Student Prize, W. B. Coutts.

EXAMINATION RESULTS

Primary: Institute First Prize, Miss G. C. Conmee; Institute Second Prize, W. L. MacDonald.

Silver Medal awarded by the Board of Examiners-in-Chief to the candidate obtaining the second highest total marks in the uniform final examination held across Canada was won by A. D. Mackay.

Silver Medal awarded by the Board of Examiners-in-Chief to the candidate obtaining the highest total marks in the uniform intermediate examination held across Canada was won by R. P. Boddy.

Prince Edward Island

The Institute of Chartered Accountants of Prince Edward Island announces that H. Gordon Williams of Charlottetown was successful in passing the primary examination of the Institute.

Quebec

The Institute of Chartered Accountants of Quebec announces that the following are the successful candidates in the December 1946 uniform examinations:

Final: Victor Assaly, M. Bisson, Antoine Chabot, Jacques Chadillon, C. R. Cook, G. F. Davis, E. P. Delaney, J. E. Fortier, A. J. Fyfe, H. Gillman, John Gilmour, L. F. Gold, I. Grodinsky, Frank Houghton, Marcel Hurtubise, P. H. Irwin, S. Kolomeir, Paul Lachance, R. E. Lambert, H. LeFrançois, A. M. Lindsay, A. Lussier, P. Madras, J. F. Marshall, J. McGreevy, Moses I. Nadler, D. J. Nicol, R. Normandneau, René Proulx, William M. Reay, H. Rosenzveig, C. D. Shatsky, H. Silver, J. Smart, F. C. Standing, M. Stominger, Benoit Sylvain, J. Ticoll and K. E. Weir.

Prizewinners—Final Examination: Marcel Hurtubise — Dominion Association gold medal and cash prize for obtaining highest marks in the Dominion and Quebec Institute's gold medal and cash prize for obtaining highest marks in the Province. William M. Reay—Quebec Institute's cash prize for obtaining second highest marks in the Province.

Granted Supplemental Examinations: H. J. Barclay, L. B. Craig, G. Marc de Carufel, A. Dépatie, E. G. Floud, S. Freed, M. Friefield, A. C. Gilmour, J. Gitlitz, A. W. King, J. Philpott, C. D. Reekie, C. F. Walker and D. Weinstein.

Intermediate: S. Abramovitch, H. Alper, Mrs. A. Atkin-

son, A. Beeman, R. Benoit, G. Bird, A. A. Bloom, R. Bremer, M. Calder, O. F. Carter, S. Chait, D. R. Chown, G. D. R. Cooper, J. Cunningham, H. T. Dawson, L. Desmarais, D. R. Drummond, R. G. Forster, C. D. Fraser, H. Gilmour, J. Giroux, P. Greenwood, N. K. Hood, Edward L. Irwin, L. Lamarche, J. P. Latendresse, P. A. Lawrence, G. E. Leach, N. T. Lyons, A. I. MacTier, L. C. Mercure, G. E. Mundy, H. J. Newman, J. G. Pike, P. Samson, L. Sheiden, S. Sinclair, Norman Sivkin, W. E. Taylor, K. P. Wager, G. Waterhouse, E. Whitehall, F. N. Wilson, E. Wormington and J. Zittner.

Prizewinners—Intermediate Examination: Edward L. Irwin—Quebec Institute's silver medal and cash prize for obtaining highest marks in the Province. Norman Sivkin—Quebec Institute's cash prize for obtaining second highest marks in the Province.

The successful candidates in the recent final examination conducted at McGill University are as follows:

A. K. Buckland, Miss Mary Sidorchuk, John Stewart and W. Van Reet.

The successful candidates in the recent final examination at l'Ecole des Hautes Etudes Commerciales de Montreal are as follows:

Paul Beaudooin, Marcel Armand, Robert Caron, Marcel Girard, Maurice Hardy, Hervé Belzile, Charles McLaughlin, Hervé Forget, Paul Rozon, Marcel Juteau, Gérard Legendre, Guy Martin, Marcel Renaud and Gaston Robillard.

Granted Supplemental Examination: Roger Boulet, L. P. Chamberland, Yvon Joyal, Conrad Lachapelle, André Montgrain, Pernand Paré, Omer Pouliot, Clément Primeau, Roger Roy, Emile Sanche, Olivier Sasseyville, Gaetan Théberge, Jean Zalloni.

Recent graduates in the final examination of l'Ecole Supérieure de Commerce de Quebec are as follows:

Robert Noel, Robert Leboeuf and Maurice Bussières.

Granted Supplemental Examination: Jules Bélanger, Pierre Fortier, Benoit Gagnon, Clermont Gagnon, Jean Giroux, Siméon Gosselin, Jules Lavoie, Lucien Letourneau, Michel Motard and Robert Racine.

EXAMINATION RESULTS

Saskatchewan

The Institute of Chartered Accountants of Saskatchewan announces that the following are the successful candidates in the December 1946 uniform examinations of the provincial institutes:

Final D. Rosamond Benson, J. D. W. Blyth, N. C. Hagan, F. N. Maas, H. J. Millard, R. G. McCorkle, J. A. MacDonald, S. R. Wells, D. A. Williams, and C. W. Worden.

Granted Supplemental Examinations: S. W. Andrew, R. H. Conlin, H. N. Hodge, L. E. Mann, R. J. Middleton and V. Reiners.

The following students were successful in the recent examinations of the Institute of Chartered Accountants of Saskatchewan:

Final Part I: S. A. Balfour, A. R. Donnelly, K. E. Moyer, Verna J. Smith, H. R. Tate, and J. E. Williams.

Intermediate: W. R. Cantlon and J. C. A. Monette.

Granted Supplemental Examination: E. W. Straus.

W. R. Cantlon of Moose Jaw was awarded first prize of the Institute of Chartered Accountants of Saskatchewan in the Intermediate examination.

STUDENTS' DEPARTMENT

J. E. SMYTH, C.A., EDITOR

NOTES AND COMMENTS

We have recently had the good fortune to acquire a copy of *Ontario's Niagara Parks* by Ronald L. Way, published by the Niagara Parks Commission, 1946. This handsome book deals with a history of a development in which Canadians may take a justifiable pride.

Of particular interest to accountants is the section on "Revenues and Finance" and at some future date we hope to refer again to this in dealing with the financing of publicly-owned enterprise. But the thing which caught our eye immediately was the summary of the extraordinary lawsuit between the Niagara Parks Commission and the International Railway Company. Here we have a most striking demonstration that the valuation of fixed assets is more than merely an academic problem.

An agreement dated September 1891 authorized the operation for a period of forty years of an electric railway on a scenic route along the gorge, and included an option to renew for a further twenty years. We read at page 282 that the agreement contained a stipulation to the effect that "if at the end of the said period of forty years, the company are unwilling to renew, or at the end of the further period of twenty years, if the company continue to hold for such further period, the company shall be duly compensated by the commissioners for their railways, equipment and other works".

The termination of the forty year period found the railway facing the universal problems of 1931, and it followed that the railway would notify the Commission of its intention to cease operations. It followed too that there was likely to be some difference of opinion as to the amount which would see the railway "duly compensated" for its equipment at that time.

When negotiations broke down on this point, recourse was had to a section in the agreement by which three arbitrators would be named; and one was named by the Com-

STUDENTS' DEPARTMENT

mission, a second by the railway, and the other (the chairman) was the Chief Justice of Ontario. This Board of Arbitrators, Mr. Way relates, sat for forty-seven days and set the amount at \$179,104. The railway appealed the decision to the Appellate Division of the Supreme Court of Ontario only to have the award reduced to \$169,764. Nothing daunted, the appeal was carried to the Judicial Committee of the Privy Council; and in 1937 the Lords made what may be called (by way of understatement) a substantial upward revision in the award. They set it at \$1,057,-436.

And why this amazing difference? To quote Mr. Way at page 283:

.... Both the arbitrators and the Supreme Court of Ontario based their awards upon the actual marketable value of the Railway Company's assets. From this standpoint, indeed, even the lowest award of \$169,764. was generous, for the Commissioners could only dispose of the Railway's second-hand equipment at scrap value—a small fraction of this amount. The Judicial Committee of the Privy Council, on the other hand, thought of compensation in terms of replacement value, i.e., what it would cost the Company to purchase machinery and completely reconstruct the railway under modern conditions. Although British jurisprudence supplied precedents for this decision, it ignored the fact that the business had become quite unprofitable and that most of the Railway's equipment was both obsolete and worn out.

In addition to the award of \$1,057,436, the railway was paid interest thereon from 1935-1937. Encouraged by their success to date, the representatives of the company claimed further interest right back to 1932. Mr. Way states that the defence of the Commission to this claim took three forms: That there was no provision in the agreement for interest; that the Commission was immune from such liability being an agent of the Crown; and that the railway "was not entitled to interest on the compensation until the amount was fixed". This defence prevailed in the Ontario court, but when the Railway company appealed again to the Privy Council, it was awarded "\$300,000 interest on the amount of their previous award of \$1,057,436".

Mr. Way concludes (page 285), "The lengthy litigation, which spread over a decade, cost the Niagara Parks Commission nearly \$1,500,000, after Canadian Courts and arbitrators had found the total award should be some \$169,000."

* * *

PUZZLES

So many letters have been received sympathizing with Professor Smails in his dilemma about the puzzle given on

page 53 of the January 1947 issue and the answer given on page 109 of the February issue that we feel we must put an end to the controversy. This is done herewith by publishing the best letter received.

"Sir:

Please accept my sympathy in your 'humiliation'. However, have a little heart! No proof whatever of the solution was offered. It seems to me that we are expected to accept too many things for granted these days. I am also one of the 19 and, personally, I refuse to be humiliated until the proposition has been proven or the enclosed solution disproved.

It would seem apparent that the amount of water in the mixture removed from B could only equal the amount of wine transferred from A to B if the first spoonful were short-circuited and never reached B. I would suggest that Mr. Ball be asked to check his experiment using a less potent liquid this time.

Yours sincerely,

Chartered Accountant 19".

Editor's Note: We are not printing the solution submitted as it was in rather complicated algebraic form. It is suggested that all those interested work out the puzzle by assuming that each wine glass contained four teaspoonfuls of liquid. You are on your honour neither to drink, spill, nor otherwise lose any of their liquid content.

PROBLEMS AND SOLUTIONS

THE PROVINCIAL INSTITUTES OF CHARTERED ACCOUNTANTS

Solutions presented in this section are prepared by practising members of the several provincial Institutes and represent the personal views and opinions of those members. They are designed not as models for submission to the examiner but rather as such discussion and explanation of the problem as will make its study of benefit to the student. Discussion of solutions presented is cordially invited.

PROBLEM I

INTERMEDIATE EXAMINATION, DECEMBER 1946

Accounting I, Question 4 (20 marks)

You are engaged by Mr. N. A. Sturtium, Florist, who gives you the following information: Mr. Sturtium has been in the Florists' trade for a number of years and has presented his latest statement as at 31st December 1944 to a Florists' Air Mail Delivery Union with the intention of becoming a member thereof. Mr. Sturtium explains that he believes he can "make larger profits" if he becomes a member of this organization and in addition offers a line of novelties and chinaware to his customers. He expects to sell the novelties and chinaware at a "mark up" of 33 1/3% on cost. Gross profit on sales through the Florists' Air Mail Delivery Union will be 20% of selling price. The gross profit on his regular sales in 1945 is expected to remain the same as in the year 1944. Mr. Sturtium presents you with

STUDENTS' DEPARTMENT

his statement of Profit and Loss for the year ended 31st December 1944 which shows:

Sales	\$50,000
Cost of Sales	30,000
Operating expenses	12,000
Net profit	8,000

Mr. Sturtium expects his regular sales to increase 10% in 1945 over the prior year and has estimated the sales of novelties and chinaware will be \$12,000 and the sale of flowers through the Florists' Air Mail Delivery Union will be \$13,000. Operating Expenses are expected to increase by 4,600, half of this amount due to novelties and chinaware sales and half due to sales through the Florists' Air Mail Delivery Union.

Required:

1. Mr. Sturtium desires that you prepare a comparative statement of operations for the years 1944 and 1945 based on the information he has supplied to you. The statement should show as much detail as possible including percentages or ratios which you would consider important.
2. Discuss the proposals of Mr. Sturtium having regard to the results shown by the comparative statement of operations.
(Ignore income and excess profits taxes)

SOLUTION

N. A. STURTIUM, FLORIST

Comparative Statement of Operations for Year 1944 with Estimated Results for 1945

	1945	1944	Increase
Sales	\$80,000.00	\$50,000.00	\$30,000.00
	(100%)	(100%)	
Cost of Sales	52,400.00	30,000.00	22,400.00
Gross Profit	\$27,600.00	\$20,000.00	\$ 7,600.00
	(34.5%)	(40%)	
Operating Expenses	16,600.00	12,000.00	4,600.00
	(20.75%)	(24%)	
Net Profit	\$11,000.00	\$ 8,000.00	\$ 3,000.00
	(13.75%)	(16%)	

Comparison of Departmental Operations

	Flowers		Novelties & China	Florist Air Mail Delivery	
	1945	1944		1945	1945
Sales	\$55,000.00	\$50,000.00	\$5,000.00	\$12,000.00	\$13,000.00
	(100%)	(100%)		(100%)	(100%)
Cost of Sales ..	33,000.00	30,000.00	3,000.00	9,000.00	10,400.00
Gross Profit ...	\$22,000.00	\$20,000.00	\$2,000.00	\$ 3,000.00	\$ 2,600.00
	(40%)	(40%)		(25%)	(20%)
Operating Expenses ..	12,000.00	12,000.00	.....	2,300.00	2,300.00
	(21.82%)	(24%)		(19.17%)	(17.69%)
Net Profit	\$10,000.00	\$ 8,000.00	\$2,000.00	\$ 700.00	\$ 300.00
	(18.18%)	(16%)		(5.83%)	(2.31%)

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(2) If the proposals were put into effect a greater net profit would be shown. However, of the \$3,000.00 increase in net profit, only \$1,000.00 would be due to the results of the new operations. We can see from the statement that \$2,000.00 of the increase is due to the increase of Gross Flower sales. Mr. Sturtium could best "make larger profits" by avoiding the sales through Florists Air Mail Delivery Union and sales of novelties etc., and devoting his time to increasing the "Flower Sales", as his operating expense obviously remains constant on the flower business but the overhead on the proposed new departments is too great for the small ratio of gross profit.

PROBLEM II
FINAL EXAMINATION, DECEMBER 1946
Accounting I, Question 1 (35 marks)

The Modern Manufacturing Company Limited manufactures a standard type of electric fixture. It is controlled jointly by Brown and Smith. Brown has not been actively engaged in the business, which has been managed by Smith. Brown, however, is dissatisfied with Smith's management, as there have not been sufficient funds available for dividend payments, and has approached Smith with a view to purchasing his shares. Smith is prepared to sell, and has offered his holding for \$70,000. The accounts of the company have not been audited but Brown gives you the Profit and Loss statements and Balance sheet prepared by the company's book-keeper. These disclose the following results:

**THE MODERN MANUFACTURING COMPANY LIMITED
COMPARATIVE PROFIT AND LOSS ACCOUNTS**

	Year ended 31st December		
	1943	1944	1945
Sales	\$300,400	\$285,800	\$248,900
<i>Cost of Sales</i>			
Opening inventory—processed and finished goods	10,000	9,000	9,500
Materials used	94,250	89,500	77,400
Productive labour	64,450	63,500	61,300
Superintendence and non-productive labour	8,100	8,050	8,200
Depreciation and depletion	3,500	7,500	8,100
Other overhead charges	19,300	17,700	17,600
	<hr/>	<hr/>	<hr/>
	\$199,600	\$195,250	\$182,100
Less: Closing inventory, processed and finished goods	9,000	9,500	22,000
	<hr/>	<hr/>	<hr/>
	\$190,600	\$185,750	\$160,100
Gross profit	<hr/>	<hr/>	<hr/>
	\$109,800	\$100,050	\$ 88,800
<i>Expenses</i>			
Salaries and commissions	\$ 52,900	\$ 53,400	\$ 51,550
Advertising	7,500	5,000	4,000
Catalogue .....	.....	.....	3,000
Selling expenses	5,000	4,000	3,500
Management salary (Smith)	4,000	4,000	4,000
Directors' fees	1,500	1,500	1,500
Telephone and telegraph	2,400	2,800	2,700
Office salaries	4,500	4,700	5,000

STUDENTS' DEPARTMENT

Stationery and office supplies	800	700	600
Bad debts written off	2,000	.....	.....
General expense	1,900	1,700	3,000
Interest on bank loan	2,000	1,500	.....
Carrying charges on vacant real estate	2,000	2,500	2,600
Discounts allowed	1,200	1,000	850
Provision for income and excess profits tax	9,280	7,400	3,200
	\$ 96,980	\$ 90,200	\$ 85,500
	\$ 12,820	\$ 9,850	\$ 3,300

Other Income

Discounts received	\$ 900	\$ 850	\$ 1,000
Income from real estate	200	400	500
	\$ 1,100	\$ 1,250	\$ 1,500
Net profit	\$ 13,920	\$ 11,100	\$ 4,800

COMPARATIVE BALANCE SHEETS

	31st December		
	1943	1944	1945
Cash on hand and in bank	\$ 500	\$ 8,450	\$ 4,000
Accounts receivable	61,000	58,050	62,200
Inventories	23,200	22,700	41,400
Machinery and equipment	35,000	35,000	36,000
Vacant real estate	40,000	40,000	40,000
Patents (original cost \$25,000)	25,000	21,000	16,500
	\$184,700	\$185,200	\$200,100
Bank loan	\$ 20,000	.....	.....
Accounts payable	17,000	\$ 23,300	\$ 28,900
Accrued charges	1,200	900	1,100
Mortgage on real estate	14,000	14,000	14,000
Reserve for depreciation on machinery	10,500	14,000	17,600
Capital stock	100,000	100,000	100,000
Surplus	22,000	33,000	38,500
	\$184,700	\$185,200	\$200,100

Brown also gives you the following information:

- (a) The paid-up capital of the Company is \$100,000 of which he and Smith each own or control one-half.
- (b) The vacant real estate is estimated to be worth \$25,000 and is now rented as a parking lot.
- (c) It is estimated that accounts receivable included uncollectible items totalling \$2,000 at 31st December 1944 and \$4,000 at 31st December 1945.
- (d) A catalogue was published during 1945 to meet a condition which arose due to the lack of trained salesmen. It is not anticipated that it will be necessary to repeat publication in the future.
- (e) Brown does not propose to manage the business personally and estimates that he will have to pay \$6,000 a year to obtain an efficient manager.

- (f) The effective rate of taxation for this Company may be taken to be 40%.
- (g) The company no longer manufactures the article to which the patents apply as it has become obsolete.
- (h) The remaining assets are deemed to be worth their full balance sheet value.

Brown requests your advice concerning Smith's offer and at the same time intimates that he feels that the normal operations of the business should return at least 8% on any investment he may make.

Required:

From the information given write a report to Brown analyzing the results and criticizing Smith's offer. Include in your report such figures as you deem advisable to illustrate your remarks, and indicate your own opinion as to the amount Brown should pay for the shares in question.

SOLUTION

It is suggested that the following statements and tabulations be submitted, either as part of the report or as exhibits attached thereto:

**THE MODERN MANUFACTURING COMPANY LIMITED
RECONSTRUCTED PROFIT AND LOSS ACCOUNTS**

After elimination of extraordinary and non-recurring expenses, etc.

	Year ended 31st December					
	1943	1944	1945			
Sales	100%	300,400.	100%	285,800.	100%	248,900.
Cost of Sales ..		190,600.		181,750.		155,600.
Gross Profit ..	36.6%	109,800.	36.4%	104,050.	37.5%	93,300.
Selling Expenses		65,400.		62,400.		59,050.
Administrative Expenses ...		17,100.		17,400.		18,800.
Financial Expenses ..		3,200.		3,000.		2,850.
	28.6%	85,700.	29%	82,800.	32.4%	80,700.
Discounts Received	8%	24,100.	7.4%	21,250.	5.1%	12,600.
		900.		850.		1,000.
Net Profit from Sales ..	8.3%	25,000.	7.7%	22,100.	5.5%	13,600
Net Cost of Vacant Real Estate ..		1,800.		2,100.		2,100.
Net Profit before Taxes		23,200.		20,000.		11,500.
Provision for Taxes		9,280.		8,000.		4,600.
	4.6%	13,920.	4.2%	12,000.	2.8%	6,900.

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STATEMENT OF NET ASSETS

	As at 31st December		
	1943	1944	1945
Current Assets	84,700.	87,200.	103,600.
Machinery and Equipment,			
Less Depreciation	24,500.	21,000.	18,400.
	<u>109,200.</u>	<u>108,200.</u>	<u>122,000.</u>
Less: Current Liabilities	38,200.	24,200.	30,000.
Net Assets ordinarily employed in business	71,000.	84,000.	92,000.
Add: Equity in Vacant Real Estate ..	11,000.	11,000.	11,000.
Total Net Assets	<u>\$82,000.</u>	<u>95,000.</u>	<u>103,000.</u>
Smith's Share 50%			<u>\$ 51,500.</u>
Net Profit from Sales	25,000.	22,100.	13,600.
Tax thereon at 40%	10,000.	8,840.	5,440.
Net Profit from Sales after taxes	<u>15,000.</u>	<u>13,260.</u>	<u>8,160.</u>
Percentage to Net Assets ordinarily employed	21.1%	15.8%	8.8%
Capitalized Value of Net Profit from Sales after taxes—at 8%	187,500.	165,750.	102,000.
50% Interest	93,750.	82,875.	51,000.

The report should include the following:

(a) An indication of the adjustments necessary to eliminate non-recurring items and reconstruct the Profit and Loss Account to reflect earnings that would have resulted from sales of the past three years under conditions anticipated to prevail in the immediate future. These are:

1. Elimination of depletion on patents as patents are no longer being used.
2. Elimination of cost of catalogue 1945—non-recurring.
3. Adjustment of management salary to rate expected to be paid in future.
4. Provision made for uncollectable accounts 1944-1945.
5. Elimination of interest on Bank loan—1943-1944 non-recurring.
6. Treatment of net carrying charges on vacant real estate as deduction from net profit on sales.
7. Calculation of taxes at effective rate of 40%.

(b) An analysis of the reconstructed Profit and Loss statement submitted pointing out the downward trend of sales and net profits and the fact that overhead has not been reduced proportionately.

(c) Mention of the unproductiveness of the money invested in vacant real estate and the possible advisability of disposing of it to save carrying charges.

(d) General comments on statement of net assets pointing out elimination of patents as of no value and differentiation between assets employed in business and total net assets including vacant real estate.

THE CANADIAN CHARTERED ACCOUNTANT

(e) The value to be placed on Smith's shares might be said to be between \$51,500, based on net asset values and \$61,000, based on capitalized value of net profit from sales for 1945. This latter limit seems to be conservative in view of the higher profit in preceding years but it is felt that any increase in value over that amount would be contingent upon fairly definite expectation of a return to former sales volume in the future. The unfavourable feature of the downward trend in sales and profits should be clearly pointed out.

The report should be properly set up with due attention to form, accuracy of grammatical construction, and general tone.